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## COMPANY INFORMATION

<b>BOARD OF DIRECTORS</b>	Javed Saifullah Khan Osman Saifullah Khan Kulsum Saifullah Khan Omar Saifullah Khan Jehangir Saifullah Khan Hoor Yousafzai Ch. Maqbool Ahmad	- Chairman - Chief Executive
<b>AUDIT COMMITTEE</b>	Ch. Maqbool Ahmad Jehangir Saifullah Khan Hoor Yousafzai	- Chairman - Member - Member
<b>CHIEF FINANCIAL OFFICER</b>	Zaheen-ud-Din Qureshi	
<b>COMPANY SECRETARY</b>	Mumtaz H. Chaudhry	
<b>AUDITORS</b>	Hameed Chaudhri & Co., Chartered Accountants	
<b>LEGAL ADVISORS</b>	Dr. Pervez Hassan Hassan & Hassan, Advocates Abdul Latif Yousafzai, Advocate	
<b>BANKERS</b>	National Bank of Pakistan United Bank Limited Albaraka Islamic Bank The Bank of Punjab First National Bank Modaraba	
<b>HEAD OFFICE</b>	Kulsum Plaza, 4th Floor, 2020 - Blue Area, Islamabad-44000 Phone : (051) 2823924, 2829415 Fax : (051) 2822564, 2278537 e-mail : ktm@saifgroup.com	
<b>REGISTERED OFFICE</b>	APTMA House, Tehkal Payan, Jamrud Road, Peshawar Phone : (091) 5843870, 5702941 Fax : (091) 5840273 e-mail : peshawar@saifgroup.com	
<b>MILLS</b>	Saifabad, Kohat Phone : (0922) 518615, 518712 Fax : (0922) 512295 E-mail : ktmkht@saifgroup.com	
<b>WEB SITE</b>	www.kohattextile.com	

## **DIRECTORS' REVIEW REPORT TO THE MEMBERS**

It is my pleasure to present, on behalf of the Board of Directors, this report of your Company's performance for the nine months ended 31 March 2008.

### **FINANCIAL HIGHLIGHTS**

- Gross profit margin reduced to **6.67%** from **9.61%** due to severe external pressures arising from the depressed market conditions, increase in energy cost with the shortage of electricity & gas and increased cost of raw material during the cotton season with the poor quality of cotton produced.
- Operating profit is **Rs. 26.85** million as compared to **Rs. 60.67** million for the corresponding period of last year.

### **GENERAL MARKET CONDITIONS**

Your company is not shielded from the difficulties that are affecting the profitability of the entire textile sector. The most crippling factor is the simultaneous shortage of electricity and natural gas, thereby undermining our ability to effectively utilize the installed captive power plant. In addition, the following market conditions are also prevailing:

- Increase in the cost of inputs caused by the elevated price of petroleum products and natural gas.
- Major increase in cotton prices.
- Poor quality of cotton during the cotton season.
- Sudden increase in electricity tariffs of about 33%.
- Rising interest rates and financial charges.
- Domestic and regional political uncertainty.

### **FUTURE OUTLOOK**

The management is consistently focusing its efforts to increase your company's efficiency and profit margin despite the challenges before us.

The entire domestic manufacturing sector, not just the textile sector is heading towards a downturn. The primary driver of this downturn is the escalating cost of borrowing, which is fuelled by the inability of the government to reduce the fiscal deficit. Unfortunately, so long as the government fails to curtail its own expenditure and the consequent inflation, the State Bank will continue to impose a restrictive monetary policy. If the government fails to arrest this trend, the result could be crippling for the textile manufacturing industry.

The electricity deficit is also at an all time high, resulting in frequent power shut down causing lower efficiencies and machinery breakdowns. These occur during peak as

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well as off-peak hours. Increasingly, the supply of natural gas to industrial units is also prone to shutdowns especially in the winter season. The result is that even gas fueled captive power plants cannot provide the standby economic benefits that they were installed for.

At the same time, the 33% rise in electricity tariff, followed by a 20% hike in the petroleum prices are causing rapid erosion in Pakistan's cost competitiveness. There is strong expectation that the ocean freight will also be increased by US \$ 600 per container in coming future.

This operationally challenging environment has come at the same time as the energy crisis, and has had a telling effect on the operating cost and efficiency of the textiles manufacturing sector. This sector is in crisis and requires support from the regulatory authorities in helping it to regain cost effectiveness and international market share.

Instead, the government has increased the mandatory minimum wage at a time when the textiles manufacturing sector is determined to control costs in order to survive in these difficult times.

Prices of cotton have also risen unjustifiably considering that the quality of the crop is below par. With an estimated shortage of 2 million bales, it is likely that cotton prices will continue to rise without any commensurate increase in the quality of the bales.

In this operating environment, the mission facing your Company's management is an extremely challenging one. Our goal is to operate in a dedicated and efficient manner as much as possible and by doing so, to minimize the adverse impact of the depressed market and economic conditions. In the absence of any positive change in government economic policies & developments during the next quarter, our operating results are unlikely to improve beyond their current levels.

### **ACKNOWLEDGMENT**

The Board places on record its appreciation for the support of our bankers and our valued customers. We would also like to highlight the hard work put in by the members of our corporate family.

We look forward to the same dedication and cooperation in the days ahead.

**For and on behalf of the Board**

Place: Islamabad  
Dated: 25 April, 2008

**JAVED SAIFULLAH KHAN**  
Chairman/Director

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**CONDENSED INTERIM BALANCE SHEET  
AS AT 31 MARCH, 2008**

	Note	(Un-audited) 31 March, 2008	(Audited) 30 June, 2007
(Rupees in thousand)			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL</b>			
Authorised		220,000	220,000
Issued, subscribed and paid-up		208,000	208,000
<b>ACCUMULATED LOSS</b>		(84,429)	(54,554)
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>		123,571	153,446
		151,257	153,383
<b>NON-CURRENT LIABILITIES</b>			
Long Term finances	6	250,000	250,000
Long term deposits		1,414	1,454
Liabilities against assets subject to finance lease	7	36,993	61,769
Staff retirement benefits - gratuity		14,469	14,659
		302,876	327,882
<b>CURRENT LIABILITIES</b>			
Current portion of liabilities against assets subject to finance lease		31,017	29,421
Short term finances		447,041	426,308
Trade and other payables		66,622	89,903
Accrued interest / mark-up		26,979	17,529
Taxation	8	4,547	6,575
		576,206	569,736
<b>CONTINGENCIES AND COMMITMENTS</b>	9		
		1,153,910	1,204,447
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property, plant and equipment			
Operating assets	10	611,426	644,961
Capital Work-in-Progress		16,793	0
Stores held for capital expenditure		1,489	449
		629,708	645,410
Long term deposits		1,137	1,137
Loans to employees		2,823	1,906
Deferred taxation	11	56,123	34,000
		689,791	682,453
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		27,396	24,302
Stock-in-trade		298,921	338,671
Trade debtors		104,164	139,426
Loans and advances		1,049	681
Advance payments		1,082	793
Deposits and prepayments		1,575	1,179
Sales tax refundable		13,896	10,130
Other receivables		747	316
Advance income tax and tax deducted at source		5,594	6,381
Cash and bank balances		9,695	115
		464,119	521,994
		1,153,910	1,204,447

The annexed notes form an integral part of this condensed interim financial information.

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two Directors as required under section 241 (2) of the Companies Ordinance, 1984.

Javed Saifullah Khan  
Chairman/Director

Hoor Yousafzai  
Director

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### CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE QUARTER AND NINE MONTHS ENDED 31 MARCH, 2008 (UN-AUDITED)

	For the 3rd Quarter		Nine months ended	
	Jan. - Mar. 2008	Jan. - Mar. 2007	July. 07 Mar. 08	July. 06 Mar. 07
	(Rupees in thousand)			
SALES - net	232,467	311,734	910,722	962,891
COST OF SALES	220,041	289,899	849,947	870,311
GROSS PROFIT	12,426	21,835	60,775	92,580
ADMINISTRATIVE EXPENSES	9,346	8,496	26,353	23,961
DISTRIBUTION COST	1,659	2,205	5,864	6,689
OTHER OPERATING CHARGES	590	(409)	2,304	2,030
	11,595	10,292	34,521	32,680
OTHER OPERATING INCOME	831	11,543	26,254	59,900
	282	424	596	765
OPERATING PROFIT	1,113	11,967	26,850	60,665
FINANCE COST	24,471	24,136	76,414	68,969
(LOSS) BEFORE TAXATION	(23,358)	(12,169)	(49,564)	(8,304)
TAXATION				
Current - note 8	1,138	1,556	4,547	4,806
Prior	0	0	14	(310)
Deferred - note 11	(9,356)	(5,964)	(22,123)	5,812
	(8,218)	(4,408)	(17,562)	10,308
(LOSS) AFTER TAXATION	(15,140)	(7,761)	(32,002)	(18,612)
	----- Rupee -----			
Loss per share	(0.73)	(0.37)	(1.54)	(0.89)

The annexed selected explanatory notes form an integral part of these financial statements.

Appropriations have been reflected in the statement of changes in equity.

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two Directors as required under section 241 (2) of the Companies Ordinance, 1984.

Javed Saifullah Khan  
Chairman/Director

Hoor Yousafzai  
Director

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### CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2008 (UN-AUDITED)

	Nine months ended	
	31 March, 2008	31 March, 2007
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the period	(49,564)	(8,304)
Adjustments for:		
Depreciation and amortisation	39,730	42,366
Staff retirement benefits gratuity - (net)	(190)	863
Gain on sale of vehicles	(165)	(340)
Finance cost	76,414	68,969
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
-Before working capital changes	66,225	103,554
(Increase) / decrease in current assets:		
Stores, spares and loose tools	(3,094)	(2,587)
Stock-in-trade	39,750	(73,760)
Trade debtors	35,262	(30,639)
Loans and advances	(368)	(483)
Advance payments	(289)	(56)
Deposits and prepayments	(396)	(1,026)
Sales tax refundable	(3,766)	(4,407)
Other receivables	(431)	(697)
Increase / (Decrease) in trade and other payables	(23,281)	6,867
	43,387	(106,788)
<b>CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		
-After working capital changes	109,612	(3,234)
Taxes paid	(5,802)	(4,348)
<b>CASH FLOW FROM OPERATING ACTIVITIES - After taxation</b>	103,810	(7,582)
Loans to employees	(917)	(525)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>	102,893	(8,107)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditures	(24,928)	(12,705)
Sale proceeds of vehicles	1,066	450
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	(23,862)	(12,255)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Demand finances	0	(40,000)
Long term deposits	(40)	318
Lease finance-net	(23,180)	(24,168)
Short term finances - net	20,733	164,608
Finance cost paid	(66,964)	(74,412)
<b>NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES</b>	(69,451)	26,346
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	9,580	5,984
<b>CASH AND CASH EQUIVALENTS - At the beginning of the period</b>	115	442
<b>CASH AND CASH EQUIVALENTS - At the end of the period</b>	9,695	6,426

The annexed selected explanatory notes form an integral part of these financial statements.

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two Directors as required under section 241 (2) of the Companies Ordinance, 1984.

Javed Saifullah Khan  
Chairman/Director

Hoor Yousafzai  
Director

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**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**

**FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2008 (UN-AUDITED)**

	Share capital	Accumulated Loss	Total
( R u p e e s i n t h o u s a n d )			
Balance as at 30 June, 2006	208,000	(34,783)	173,217
Loss after taxation for the period from 01 July 2006 to 31 March 2007	0	(18,612)	(18,612)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period from 01 July, 2006 to 31 March 2007 - net of deferred taxation	0	2,320	2,320
Balance as at 31 March 2007	208,000	(51,075)	156,925
Loss for period form 01 April, 2007 to 30 June, 2007	0	(4,252)	(4,252)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period from 01 April, 2007 to 30 June, 2007 - net of deferred taxation	0	773	773
Balance as at 30 June, 2007	208,000	(54,554)	153,446
Loss after taxation for period form 01 July 2007 to 31 March 2008	0	(32,002)	(32,002)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period from 01 July 2007 to 31 March, 2008 - net of deferred taxation	0	2,127	2,127
<b>Balance as at 31 March, 2008</b>	<b>208,000</b>	<b>(84,429)</b>	<b>123,571</b>

The annexed selected explanatory notes form an integral part of these financial statements.

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two Directors as required under section 241 (2) of the Companies Ordinance, 1984.

Javed Saifullah Khan  
Chairman/Director

Hoor Yousafzai  
Director

**SELECTED EXPLANATORY NOTES TO THE  
CONDENSED INTERIM FINANCIAL INFORMATION  
FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2008 (UN-AUDITED)**

1. The Company was incorporated in Pakistan during the year 1967 as a Public Company and its shares are quoted on Karachi and Islamabad Stock Exchanges. It is principally engaged in manufacture and sale of yarn. The Company's Mills are located in Saifabad, Kohat and Registered Office at APTMA House, Tehkal Payan, Jamrud Road, Peshawar.
2. This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard 34 (Interim Financial Reporting).
3. This condensed interim financial information does not include all the information required for full financial statements and should be read in conjunction with the preceding published annual financial statements of the Company for the year ended 30 June, 2007.
4. The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the preceding published annual financial statements of the Company for the year ended 30 June, 2007.
5. The significant judgment, estimates and assumptions used by the management in preparation of this condensed interim financial information are the same as those applied to the preceding published annual financial statements of the Company for the year ended 30 June, 2007.

	(Un-audited) 31 March, 2008	(Audited) 30 June, 2007
	(Rupees in thousand)	
6. <b>TERM FINANCES - Secured</b>		
The Bank of Punjab	<u>250,000</u>	<u>250,000</u>

This term finance facility of Rs.250 million has been obtained from The Bank of Punjab and is secured against first pari passu charge over fixed assets of the Company. This finance facility, during the period, carried mark-up at the rates ranging from 12.84% to 13.18% per annum and is repayable in 20 equal quarterly instalments of Rs.12.500 million commencing August, 2009.

7. **LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured**

Opening balance	91,190	119,653
Add: Lease facility obtained during the period/year	<u>2,543</u>	<u>0</u>
	93,733	119,653
Less: Payments made during the period/year	<u>25,723</u>	<u>28,463</u>
	68,010	91,190
Less: Current portion grouped under current liabilities	<u>31,017</u>	<u>29,421</u>
	<u>36,993</u>	<u>61,769</u>

The Company has entered into lease agreements with First National Bank Modaraba and AlBaraka Islamic Bank to acquire plant & machinery and a fork lifter. The liabilities under these lease agreements are payable in monthly and bi-annually instalments by May, 2011. These facilities, during the period, carried finance charges at the rates ranging from 12.16% to 12.92% per annum. The Company intends to exercise its option to purchase the leased assets upon completion of the respective lease terms. These lease finance facilities are secured against charge over leased assets, demand promissory note.

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	<b>(Un-audited)</b> 31 March, 2008	<b>(Audited)</b> 30 June, 2007
<b>(Rupees in thousand)</b>		
<b>8. TAXATION</b>		
Opening balance	6,575	5,956
Add: Provision made during the period/year		
- Current	4,547	6,575
- Prior years'	14	(309)
	4,561	6,266
	11,136	12,222
Less: adjustment against completed assessments	6,589	5,647
	4,547	6,575

8.1 In view of available tax losses, the current tax expense represents the minimum tax on turnover for the period of nine months due under section 113 of the Income Tax Ordinance, 2001.

### 9. CONTINGENCIES AND COMMITMENTS

9.1 There is no significant change in the status of contingencies as reported in the preceding published annual financial statements of the Company for the year ended 30 June, 2007.

9.2 Guarantees issued by commercial banks, on behalf of the Company, in favour of Sui Northern Gas Pipelines Ltd. were outstanding for Rs.11 million (30 June 2007: Rs.11 million).

9.3 Commitments for irrevocable letters of credit outstanding as at 31 March, 2008 amounted to Rs. 6,505 thousand (30 June, 2007: Rs.48,739 thousand).

	<b>Nine Months ended</b> 31 March, 2008	<b>Year Ended</b> 30 June, 2007
<b>(Rupees in thousand)</b>		
<b>10. OPERATING ASSETS</b>		
Opening book value	644,961	676,148
Additions during the period/year		
<b>Owned:</b>		
<b>Tangible</b>		
Factory buildings on freehold land	187	3,933
Plant & machinery	3,578	17,437
Electric installations	0	51
Equipment & appliances	459	3,497
Fire extinguishing equipment	0	162
Furniture & fixtures	64	0
Vehicle	199	1,018
	4,487	26,098
<b>Leased - Equipment and appliances</b>	400	0
- Vehicle (Fork lifter)	2,208	0
	7,095	26,098
Book value of assets disposed-off during the period/year	(900)	(429)
Depreciation / amortisation charge for the period/year	(39,730)	(56,856)
Closing book value	611,426	644,961

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	(Un-audited) 31 March, 2008	(Audited) 30 June, 2007
(Rupees in thousand)		
<b>11. DEFERRED TAXATION</b>		
Net deferred tax asset comprises of temporary differences arising due to:		
Debit balances arising in respect of:		
- available tax losses	135,035	115,275
- minimum tax recoverable against tax charge in future years	24,106	19,545
	159,141	134,820
Credit balances arising in respect of:		
- accelerated tax depreciation allowances	(85,375)	(88,893)
- lease finances	(17,643)	(11,927)
	(103,018)	(100,820)
	56,123	34,000
<b>12. TRANSACTIONS WITH RELATED PARTIES</b>	(Un-audited) Nine Months ended 31 March, 2008	(Audited) Year ended 30 June, 2007
(Rupees in thousand)		
<b>12.1</b> Aggregate transactions made during the period / year with Associates were as follows:		
Sales:		
- goods and services	561,806	558,167
- fixed assets	0	304
Purchase of goods and services	123,752	414,775
<b>12.2</b> No other transactions, other than remuneration and benefits to key management personnel under the terms of their employment, were executed with other related parties during the period.		
<b>12.3</b> Sales, purchases and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the Associates, which are on the actual basis.		
<b>13. DATE OF AUTHORISATION FOR ISSUE</b>		
This condensed interim financial information has been authorised for issue by the Board of Directors of the Company in its meeting held on 25 April, 2008.		
<b>14. FIGURES</b>		
-	Figures in the condensed interim financial information have been rounded-off to the nearest thousand Rupees except stated otherwise.	
-	Corresponding figures have neither been re-arranged nor re-classified.	

The Chief Executive is out of Pakistan and in his absence these financial statements have been signed by two Directors as required under section 241 (2) of the Companies Ordinance, 1984.

Javed Saifullah Khan  
Chairman/Director

Hoor Yousafzai  
Director